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**ATTORNEYS GENERAL, LORILLARD
REACH AGREEMENT TO REDUCE
ILLEGAL INTERNET CIGARETTE SALES**

New protocol will reduce supply to illegal Internet cigarette traffickers

Attorney General Darrell McGraw today announced that Lorillard Tobacco Co. ("Lorillard") has agreed to implement new measures to prevent the illegal sale of its cigarettes over the Internet and through the mail. These protocols are being adopted nationwide and voluntarily by Lorillard pursuant to an agreement reached with 32 Attorneys General across the country (1). A similar agreement was reached with Philip Morris USA in January.

"It is nearly always illegal to sell or buy cigarettes over the Internet," Idaho Attorney General and National Association of Attorneys General Tobacco Committee Co-Chair Lawrence Wasden said. "Lorillard should be commended for taking a major step to cut off the supply of cigarettes for subsequent illegal Internet sales. I hope other tobacco companies will take similar steps to ensure that they do not supply these illegal vendors."

The protocols provide for: (a) termination of shipments of cigarettes to any of Lorillard's direct customers that the Attorneys General have found to be engaging in illegal Internet and mail order sales; (b) reduction in the amount of product made available to direct customers found by the Attorneys General to be engaged in the illegal re-sale of Lorillard's cigarettes to the Internet vendors; and (c) suspension from the company's incentive programs any retailer found by the Attorneys General to be engaging in such illegal sales.

The Attorneys General believe that virtually all sales of cigarettes over the Internet are illegal because the sellers are violating one or more state and federal laws, including: (1) state age verification laws; (2) the federal Jenkins Act (which requires that such sales be reported to state authorities); (3) state laws prohibiting or regulating the direct shipment of cigarettes to consumers; (4) state and federal tax laws; (5) federal mail and wire fraud statutes; (6) the federal Contraband Cigarette Trafficking Act; and (7) the federal RICO law. Many of the sales made by foreign websites also violate federal smuggling, cigarette labeling and money laundering laws.

"The bottom line here is that kids will have less access to cigarettes," said Iowa Attorney General Tom Miller, co-chair of the NAAG Tobacco Committee. "And that's very important because most smokers start when they are young. Most traditional retailers check photo IDs to prevent children from buying cigarettes, but the great majority of internet sellers have wholly inadequate age-verification systems."

The Attorneys General believe that Internet cigarette sales present a significant risk to public health, especially for youth. While "brick-and-mortar" retailers check photo IDs to prevent children from buying cigarettes, the vast majority of Internet sellers have age verification systems that are insufficient. In addition, most Internet vendors illegally fail to charge taxes, and research has shown that lower cigarette prices lead to increased smoking rates, particularly among youth. Moreover, numerous studies have shown that the earlier an individual begins to smoke, the more likely it is that the person will become addicted. These factors make age verification through photo IDs a critical safeguard in protecting children from a lifetime of smoking.

“Lorillard always has supported compliance with laws dealing with the illegal sale of our products, and has instituted measures to punish those who are determined to be in violation of the law,” said Ronald S. Milstein, Senior Vice President, Legal and External Affairs of Lorillard. “We are pleased to enter this voluntary accord with the attorneys general to provide a framework for further cooperation with law enforcement and add additional safeguards against the illegal sale of our products. We believe that these measures will assist our active efforts to combat counterfeit product sales and will help us and our customers to comply with the laws and regulations intended to stop sales to and consumption of our products by youth.”

This agreement is another major development in multi-pronged efforts by state Attorneys General to restrict the payment, shipment and supply operations of the illegal Internet cigarette traffickers. In March 2005, Attorneys General announced that the major credit card companies had all agreed to stop processing credit card payments for the Internet retailers. Later in the year, both DHL and UPS agreed to stop shipping packages for the vendors engaged in these illegal sales. In addition, DHL, UPS and FedEx all agreed not to deliver packages for the vendors engaged in these illegal sales.

(1) The negotiations with Lorillard were led by the New York State Attorney General's Office. In addition, the Attorneys General from the following jurisdictions have joined this agreement: Alabama, Arkansas, California, Delaware, District of Columbia, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Montana, Nebraska, Nevada, New Hampshire, New Mexico, Northern Mariana Islands, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Utah, Vermont, Washington, West Virginia and Wyoming.

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